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October 15, 2004

Mary L. Cottrell, Secretary  
Department of Telecommunication and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02202

Re: D.T.E. 04-61 – Petition of Boston Edison Company and Commonwealth Electric Company for Approvals Relating to the Termination of Power Purchase Agreements with MASSPOWER

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Dear Secretary Cottrell:

Enclosed please find the response of Boston Edison Company ("Boston Edison") and Commonwealth Electric Company ("Commonwealth") d/b/a NSTAR Electric (the "Companies") to Information Request AG-1-35.<sup>1</sup> As a result of the Companies' efforts to respond to this question, the Companies have determined that it is necessary to update its projection of costs for Boston Edison if the existing MASSPOWER PPA between Boston Edison and MASSPOWER were to remain in effect. The details relating to the updated projection of costs is set forth in the response to Information Request DTE-1-3 (Supplemental). These updated cost projections reflect an increase in the projected costs that would be incurred by Boston Edison if the existing MASSPOWER/Boston Edison PPA were to remain in effect, thereby increasing the value of the MASSPOWER Termination Agreement for customers.

The Companies have incorporated these updated costs into several of their responses to discovery questions, as follows:

- Response to Information Request AG-1-10 (Supplemental)
- Response to Information Request DTE-1-2 (Supplemental)
- Response to Information Request DTE-1-3 (Supplemental)
- Response to Information Request DTE-1-4 (Supplemental)
- Response to Information Request DTE-1-7 (Supplemental)

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<sup>1</sup> Unrelated to the Companies' response to Information Request AG-1-35 and the above-referenced supplemental information request responses, the Companies are also filing herein their responses to the Department's Second Set of Information Requests, issued on October 8, 2004, along with a supplemental response to Information Request DTE-1-9 **CONFIDENTIAL-CD-ROM**.

In addition, the Companies are filing a supplemental response to Information Request DTE-1-13 (**CONFIDENTIAL**) in order to incorporate these updated costs into the exhibits sponsored by Mr. Lubbock that compute projected customer savings resulting from the MASSPOWER Termination Agreements. The response includes a comparison of the Boston Edison costs under the existing contracts that were included in the initial filing with the updated costs. In addition, the following attachments to the supplemental response to Information Request DTE-1-13 include the cost revisions previously identified in the initial response as well as updates to the Boston Edison cost calculation:

Attachment DTE-1-13(a) (Supp.)	Exhibit NSTAR-GOL-2 (Update2) ( <b>CONFIDENTIAL CD-ROM</b> )
Attachment DTE-1-13(b) (Supp.)	Exhibit NSTAR-BEC-GOL-2 (Update2)
Attachment DTE-1-13(c) (Supp.)	Exhibit NSTAR-BEC-GOL-3 (Update2) ( <b>CONFIDENTIAL CD-ROM</b> )
Attachment DTE-1-13(d) (Supp.)	Exhibit NSTAR-BEC-GOL-4 (Update2) ( <b>CONFIDENTIAL CD-ROM</b> )
Attachment DTE-1-13(e) (Supp.)	Exhibit NSTAR-COM-GOL-2 (Update2)
Attachment DTE-1-13(f) (Supp.)	Exhibit NSTAR-COM-GOL-3 (Update2) ( <b>CONFIDENTIAL-CD-ROM</b> )
Attachment DTE-1-13(g) (Supp.)	Exhibit NSTAR-COM-GOL-4 (Update2) ( <b>CONFIDENTIAL-CD-ROM</b> )

The change identified in the supplemental response to Information Request DTE-1-3 (**CONFIDENTIAL**) flows through the exhibits as follows. First, the increased costs under the existing Boston Edison contract is shown on Attachment DTE-1-13(c) (Supp.) (Exhibit NSTAR-BEC-GOL-3 (Update2) (**CONFIDENTIAL CD-ROM**)), which increases the total transition costs projected to be paid by Boston Edison customers. Because of the higher costs, the savings for Boston Edison customers resulting from the MASSPOWER Termination Agreements are larger, as shown on Attachment DTE-1-13(b) (Supp.) (Exhibit NSTAR-BEC-GOL-2 (Update2)). The increased savings for Boston Edison customers affects the allocation of securitization transaction costs as set forth in Attachment DTE-1-13(a) (Supp.) (Exhibit NSTAR-GOL-2 (Update2), page 6) (**CONFIDENTIAL CD-ROM**). This has a small impact on the total amount to be borrowed on behalf of Boston Edison and Commonwealth customers, which has small impact on the transition costs computed on Attachment DTE-1-13(d) (Supp.) (Exhibit NSTAR-BEC-GOL-4 (Update2) (**CONFIDENTIAL CD-ROM**)), Attachment DTE-1-13(e) (Supp.) (Exhibit NSTAR-COM-GOL-2 (Update2)), Attachment DTE-1-13(f) (Supp.) (Exhibit NSTAR-COM-GOL-3 (Update2) (**CONFIDENTIAL-CD-**

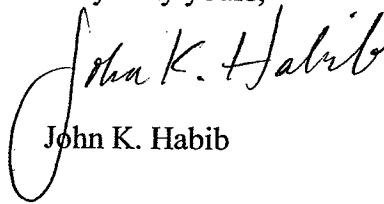
ROM))<sup>2</sup> and Attachment DTE-1-13(g) (Supp.) (Exhibit NSTAR-COM-GOL-4 (Update2) (CONFIDENTIAL-CD-ROM)).

The attachments to the supplemental response to Information Request DTE-1-13 compute total savings for the MASSPOWER Termination Agreements of \$108 million on a net-present-value basis. The calculations include all of the updated information available and are the best and most reliable estimate of customer savings.

Please note that certain documents that are responsive to these questions are confidential and are being filed under separate cover with the Attorney General and the Hearing Officer only.

Thank you for your attention to this matter.

Very truly yours,



John K. Habib

Enclosures

cc: Service List  
Joan Foster Evans, Hearing Officer (2)  
Colleen McConnell, Assistant Attorney General (2)

<sup>2</sup>

Please note that Exhibit NSTAR-COM-GOL-3 (Update2) is unchanged from Exhibit NSTAR-COM-GOL-3 (Update).

Information Request AG-1-10

Referring to Exhibit NSTAR-RBH, page 27, lines 7 through 10, please provide copies of all of the series of analyses under different power and fuel price scenarios performed by CEA and / or the Company.

Supplemental Response

Please refer to Attachment DTE-1-7(a) (update) **CONFIDENTIAL CD-ROM** for the calculation of savings under a 10 percent decrease in energy and fuel prices, and Attachment DTE-1-7(b) (update) **CONFIDENTIAL CD-ROM** for the calculation of an increase of 10 percent in energy and fuel prices. Please refer to the table below for a comparison of the recalculated savings amounts under these scenarios with the original filing.

	Total PV of Above Market Amount	Reduction in Above Market
Original Filing	\$(396,549)	8.81%
10 % Decrease	\$(410,496)	11.96%
10 % Increase	\$(383,272)	5.65%

Information Request AG-1-35

Referring to Exhibits NSTAR-RBH-5, and NSTAR-RBH-6, please recalculate the amounts shown on those exhibits, changing only the power and fuel costs and prices so that they are fixed at the most recent numbers for the entire period.

Response

**CONFIDENTIAL ATTACHMENTS**

Please refer to Attachment AG-1-35(a) and Attachment AG-1-35(b) (**CONFIDENTIAL CD-ROM**), for revised versions of Exhibit NSTAR-RBH-5 and Exhibit NSTAR-RBH-6 (**CONFIDENTIAL CD-ROM**) using the most recent power and fuel prices for the entire period of the analysis. Changing the SEMA-RI power forecast, the NEPOOL gas forecast, the No. 6 Oil forecast and the coal forecast in Exhibit NSTAR-RBH-6 to the most recent prices for October and November 2004 results in an increase in the percent savings from 8.81 percent to 19.27 percent in the reduction in above-market costs. . Please note that this response incorporates the revisions to the projected costs relating to the MASSPOWER PPA with Boston Edison as described in the supplemental response to Information Request DTE-1-3. The currently prevailing power and fuel prices that were utilized are shown in the table below.

Fuel	Source	Price (\$)	Price (\$/MMBtu)
Power	ISO Day Ahead LMP for 10/1	\$47.82/MWh	
Gas	Gas Daily, Algonquin City-gates	\$5.93/MMBtu	\$5.93/MMBtu
Oil	Journal of Commerce, "Oil Price Daily", Boston CTC, No. 6, 1 percent sulfur	\$44.25/barrel <sup>1</sup>	\$7.038/MMBtu
Coal	NYMEX Central Appalachian Coal Futures	\$61.25/ton <sup>2</sup>	\$2.99/MMBtu

<sup>1</sup> Conversion factor for Residual oil is 6.287 MMBtus per barrel.

<sup>2</sup> Conversion factor for Coal is 20.5 MMBtu/ton.

Information Request DTE-1-2

Refer to Exh. NSTAR-RBH-5. Please provide a working electronic copy in Excel format with the formulas contained in the cells as well as all supporting documentation.

Supplemental Response

**CONFIDENTIAL ATTACHMENTS**

Please refer to Attachment DTE-1-2 (update) (**CONFIDENTIAL CD-ROM**) for a working electronic copy of Exhibit NSTAR-RBH-5 and to the response to Information Request DTE-1-1 for the bids referred to in Exhibit NSTAR-RBH-5. This supplemental response incorporates the revisions to the projected costs relating to the MASSPOWER PPA with Boston Edison as described in the supplemental response to Information Request DTE-1-3.

Information Request DTE-1-3

Refer to Exh. NSTAR-RBH-6, pages 1-5. Please provide a working electronic copy in Excel format with the formulas contained in the cells as well as all supporting documentation.

Supplemental Response

**CONFIDENTIAL ATTACHMENTS**

Please refer to Attachment DTE-1-3 (update) (**CONFIDENTIAL**) for a working electronic copy of Exhibit NSTAR-RBH-6. After continued review of the contract and the electronic version of Exhibit NSTAR-RBH-6 resulting from various questions posed by the Attorney General and the Department, the following revisions were made to NSTAR-RBH-6, which affect the Boston Edison projections of costs that will be incurred in the future, if the MASSPOWER contract were to remain in effect.. As described below and detailed in Attachment DTE-1-3 (update), these revisions increase the projected costs that would be incurred by Boston Edison under the existing contract and therefore increases the value of the MASSPOWER Termination Agreement. The above-market reduction resulting from the MASSPOWER Termination Agreement computed in Attachment DTE-1-3 (update) is 8.81 percent, instead of 5.79 percent as filed in Exhibit NSTAR-RBH-6. The revisions are as follows:

- a) The gas PPI index for the Boston Edison PPA in Exhibit NSTAR-RBH-6, as filed, was based on data from 2002 invoices. It was subsequently realized that the natural gas PPI index changed dramatically in 2003, and these changes have now been reflected in Attachment DTE-1-3 (update). As such the gas PPI index located on the "Escalators" worksheet, cells AD24 through AD67 was changed to reflect an updated natural gas PPI index. Specifically, invoice index data from January 2004 through April 2004 replaced the 2002 index data that was previously utilized. In addition, on the "MASS-BEC" worksheet, cells G43 through G86 (the natural gas indices for the base energy charge component of the rate) were changed to link to these new natural gas PPI figures. The supplemental energy charge beginning in column V on the "MASS-BEC" worksheet has been updated to link directly to the gas PPI index located on the "Escalators" worksheet "cells AD25 through AD67". This link was updated in column AC of the MASS-BEC worksheet;
- b) The gas PPI index forecast for May 2004 through the life of the contract was updated to more closely correspond to the Henwood gas forecast. This change is

located on the "Escalators" worksheet, beginning with cell AD29. The gas PPI index is now being projected based on changes in the Henwood New England delivered gas price. This revision links the Henwood gas forecast to the PPI index instead of the PPI index being escalated at a factor of 2.5 percent annually. The PPI for RR line Haul Operations –coal index forecast for May 2004 through the life of the contract was updated to more closely correspond to the Henwood gas forecast. This change is located on the "MASS-BEC" worksheet, beginning with cell E48. The coal PPI index is now being projected based on changes in the Henwood New England delivered coal price. This revision links the Henwood gas forecast to the PPI index instead of the PPI index being escalated at a factor of 2.5 percent annually. The cost of petroleum for steam-electric plants index forecast for May 2004 through the life of the contract was updated to more closely correspond to the Henwood oil forecast. This change is located on the "MASS-BEC" worksheet, beginning with cell I48. The oil index is now being projected based on changes in the Henwood New England delivered oil price. This revision links the Henwood gas forecast to the PPI index instead of the PPI index being escalated at a factor of 2.5 percent annually;

c) The beginning escrow balance located on the "MASS-BEC" worksheet was inserted into cell AJ44 based on the sum of the Boston Edison balance and the MASSPOWER escrow balance.



Information Request DTE-1-4

Refer to Exh. NSTAR-RBH at 18, lines 16-18. Please provide the analysis that CEA performed that "separately valued each PPA Entitlement to determine the total cost for the energy and capacity over the term of the agreement."

Supplemental Response

**CONFIDENTIAL ATTACHMENTS**

Please refer to Attachment DTE-1-4 (update) (**CONFIDENTIAL CD-ROM**) for the CEA analysis that separately valued each PPA Entitlement. This supplemental response incorporates the revisions to the projected costs relating to the MASSPOWER PPA with Boston Edison as described in the supplemental response to Information Request DTE-1-3.

Information Request DTE-1-7

Refer to Exh. NSTAR-RBH at 27, lines 6-10. Please provide the calculations, both in hard copy and in a working Excel spreadsheet with formulas intact for the "series of analyses (that [Concentric Energy Advisors ("CEA")] performed) under different power and fuel price scenarios," which "found that the proposed transaction continued to result in a reduction of the above-market costs of these contracts," and shows that "the proposed transaction is likely to result in almost six percent reduction in the above-market costs."

Supplemental Response

**CONFIDENTIAL ATTACHMENTS**

Please refer to Attachment DTE-1-3 (update) (**CONFIDENTIAL CD-ROM**) for a spreadsheet copy of Exhibit NSTAR-RBH-6, which shows that the proposed transaction is likely to result in an almost 9 percent reduction in the above-market costs. Please also refer to Attachment DTE-1-7(a) (update) (**CONFIDENTIAL CD-ROM**) for the calculation of savings under a 10 percent decrease in energy and fuel prices, and Attachment DTE-1-7 (b) (update) (**CONFIDENTIAL CD-ROM**) for the calculation of an increase of 10 percent in energy and fuel prices. Please refer to the table below for a comparison of the recalculated savings amounts under these scenarios with the original filing. This supplemental response incorporates the revisions to the projected costs relating to the MASSPOWER PPA with Boston Edison as described in the supplemental response to Information Request DTE-1-3.

	Total PV of Above Market Amount	Reduction in Above Market
Original Filing	\$(396,549)	8.81%
10 % Decrease	\$(410,496)	11.91%
10 % Increase	\$(383,272)	5.65%

Information Request DTE-1-9

Refer to Exh. NSTAR-RBH at 18, lines 3-5. Please explain how MASSPOWER was involved in the auction process. Provide copies of all communication between CEA, NSTAR and MASSPOWER relating to the auction and the termination or buy down of the contracts.

Supplemental Response

Please see Attachment DTE-1-9 (Supp) **CONFIDENTIAL CD-ROM** for a copies of additional communications among CEA, NSTAR and MASSPOWER.

Information Request DTE-1-13

Please explain whether any of the corrections (erratas) made to the initial filing in D.T.E. 04-60 affect the customer savings analyses filed in D.T.E. 04-61. If yes, (1) please describe each correction and explain how it affects the savings analyses in this proceeding, and (2) provide corrected copies of the exhibits.

Supplemental Response

**REDACTED RESPONSE WITH CONFIDENTIAL ATTACHMENTS**

The attachments to this response incorporate the revisions to the projected costs relating to the MASSPOWER PPA with Boston Edison as described in the supplemental response to Information Request DTE-1-3 as well as the updated inputs noted in the initial response.

The changes in the projected costs described in the response to Information Request DTE-1-3 are reflected in the calculation of customer savings in Exhibit NSTAR-BEC-GOL-3, and then flow through the rest of the exhibits. Below is a comparison of the projected costs for the existing Boston Edison/MASSPOWER contracts, as contained in the initial filing and the costs included in the latest update:

	Total Cost Exhibit NSTAR-BEC-GOL-3 (Update2) Page 6 of 8 Col. F (\$ in millions)	Total Cost Exhibit NSTAR-BEC-GOL-3 Initial Filing Page 6 of 8 Col. F (\$ in millions)	Change
Apr - Dec		[REDACTED]	[REDACTED]
2005	[REDACTED]		
2006	[REDACTED]	[REDACTED]	[REDACTED]
2007	[REDACTED]	[REDACTED]	[REDACTED]
2008	[REDACTED]	[REDACTED]	[REDACTED]
2009	[REDACTED]	[REDACTED]	[REDACTED]
2010	[REDACTED]	[REDACTED]	[REDACTED]
2011	[REDACTED]	[REDACTED]	[REDACTED]
2012	[REDACTED]	[REDACTED]	[REDACTED]
2013	[REDACTED]	[REDACTED]	[REDACTED]

The updated exhibit attached hereto are as follows:

Attachment DTE-1-13(a) (Supp.)	Exhibit NSTAR-GOL-2 (Update2) <b>(CONFIDENTIAL CD-ROM)</b>
Attachment DTE-1-13(b) (Supp.)	Exhibit NSTAR-BEC-GOL-2 (Update2) <sup>1</sup>
Attachment DTE-1-13(c) (Supp.)	Exhibit NSTAR-BEC-GOL-3 (Update2) <b>(CONFIDENTIAL CD-ROM)</b>
Attachment DTE-1-13(d) (Supp.)	Exhibit NSTAR-BEC-GOL-4 (Update2) <b>(CONFIDENTIAL CD-ROM)</b>
Attachment DTE-1-13(e) (Supp.)	Exhibit NSTAR-COM-GOL-2 (Update2)
Attachment DTE-1-13(f) (Supp.)	Exhibit NSTAR-COM-GOL-3 (Update2) <b>(CONFIDENTIAL-CD-ROM)</b>
Attachment DTE-1-13(g) (Supp.)	Exhibit NSTAR-COM-GOL-4 (Update2) <b>(CONFIDENTIAL-CD-ROM)</b>

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<sup>1</sup> For convenience and ease of reference, Attachment DTE-1-13(b) (Supp.) and Attachment DTE-1-13(e) (Supp.) are saved on the **CONFIDENTIAL CD-ROM** provided with this response. However, the documents are not confidential.

Information Request DTE-2-1

Refer to Information Response to DTE 1-1 (t), a letter dated March 26, 2004. In the third paragraph, there is reference to "the February 24 Concentric Letter." Please provide a copy of this letter.

Response

**CONFIDENTIAL ATTACHMENT**

Please see the Attachment DTE-2-1 **CONFIDENTIAL**, the February 24, 2004 Concentric Letter.

Information Request DTE-2-2

Refer to Information Response to DTE 1-1 (t), a letter dated March 26, 2004. On the second page, third complete paragraph, there is reference to a "meeting on February 26th." Please provide all notes, correspondence, etc., relative to this meeting.

Response

**CONFIDENTIAL ATTACHMENT**

The meeting on February 26, 2004 was held to commence the negotiating process. Attachment DTE-2-2 (**CONFIDENTIAL**) is an internal email describing the meeting, including negotiating strategies and options. The parties did not exchange written materials nor did NSTAR Electric make other notes relative to the meeting.

Information Request DTE-2-3

Refer to Information Response to DTE 1-1 (k) and (l). Please provide the answers to the attached questions.

Response

NSTAR Electric did not provide answers to the questions included in Attachment DTE-1-1(k) and Attachment DTE-1-1(l) relating to the MASSPOWER PPAs. The bidder that asked the questions tabled them in order to deal with other issues relating to its bid. The bidder subsequently dropped out of the bidding and responses to the questions were not prepared.



Information Request DTE-2-4

Refer to Information Response to AG-1-21. What is the meaning of the acronym noted next to DOC4: "PCW" immediately prior to "GDP"?

Response

The acronym noted next to DOC4: "PCW" immediately prior to "GDP" means Price Chain Weighted, which is the methodology use by the government to develop the "GDP" index.

Information Request DTE-2-5

Refer to Information Response to AG-1-21. Please provide the series extended back to the index year 1996.

Response

**CONFIDENTIAL ATTACHMENT**

As noted in the response to Information Request AG-1-21 the forecast that was used to escalate the GNP in Exhibit NSTAR-RBH-6 was purchased by NSTAR Electric from Global Insight in September 2003. Per discussions between the Company and Global Insight personnel, the Attachment AG-1-21 (**CONFIDENTIAL**) forecast cannot be recreated in order to extend the series back to the index year 1996 due to the time lapse between September 2003 and October 2004 and the subsequent changes and updates to its econometric models.

However, for illustrative purposes please see Attachment DTE-2-5 (**CONFIDENTIAL**) for Global Insight's latest GDP forecast extended back to the index year 1996. Please note that the indices in Attachment DTE-2-5 (**CONFIDENTIAL**) are different from Attachment AG-1-21 (**CONFIDENTIAL**) due to the changes and updates to Global Insight's econometric models in addition to a change in series name.